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COMMISSION ON TRANSNATIONAL CORPORATIONS
Intergovernmental Working Group of
Experts on International Standards
of Accounting and Reporting
Twelfth session
Geneva, 7-15 March 1994
Agenda item 11

DRAFT REPORT OF THE INTERGOVERNMENTAL GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING ON ITS TWELFTH SESSION

Held at the Palais des Nations, Geneva,
from 7 to 15 March 1994

Rapporteur: Mr. N. Canikli (Turkey)

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Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated by Friday, 18 March 1994 at the latest to:

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Chapter I

MATTERS CALLING FOR ACTION BY THE COMMISSION ON TRANSNATIONAL CORPORATIONS OR BROUGHT TO ITS ATTENTION

[To be completed]

Chapter II

CONSIDERATION OF SUBSTANTIVE AGENDA ITEMS

(Agenda items 3-8 and 10)

A. General opening statements

1. The outgoing **Chairperson** of the eleventh session reminded the Group that, during the eleventh session, a number of resolutions which concerned the enhancement of accounting education and the suggested movement towards greater harmonization of professional accountancy had been formulated for consideration by the Commission on Transnational Corporations. However, during the year which had elapsed since the eleventh session, very little progress had been made in adopting and/or implementing the resolutions.

2. To maintain and advance the meaningful purpose and objectives for which the Group had been founded, he made four suggestions: the United States, as a major economic entity with considerable experience in the field of accountancy, was urged to become a member of the Group; greater funding should be provided by the United Nations to support the work of the Group; because other accountancy bodies had greater dominance in the formulation of accounting standards, the Group should take on a more meaningful role, in particular by endorsing international accounting standards formulated by other organizations; and the Group should have a clear mandate for its future activities.

3. The **Chairperson** of the twelfth session reaffirmed the need for the substantial involvement of experts from around the globe in the deliberations of the Group. Several topics which the Group had covered previously were very important, including disclosures on environmental protection matters, accounting for intangible assets, and accounting and valuation in privatization programmes. It was noted that, due to its global representation, the principles adopted by the Group were free of any bias based on ideological or political considerations.

4. However, the Group should not try to emulate other larger professional bodies which were concerned with developing international standards. The principles adopted by the Group should be original ideas and not simply reiterations of the work of its peers, with whom competition should be avoided.

5. Previous activities of the Group were recalled, in particular the Dakar Conference. However, attention was called to the fact that the recommendations of that Conference were still to be implemented.

6. The Chairman hoped that harmonization and improved accounting and reporting would improve the world economy and in turn help alleviate suffering.

7. The **Deputy to the Secretary-General of UNCTAD** said that the restructuring process that had occurred with regard to the economic activities of the United Nations had led to the transfer of the former Transnational Corporations and Management Division from New York to UNCTAD in Geneva. The Division was now called the Division on Transnational Corporations and Investment (DTCI), and the restructuring had been successfully completed.

8. Since it had arrived in UNCTAD, the Accounting Section, which serviced ISAR, had been working closely with some of the other divisions of UNCTAD, including, for example, the International Trading System Unit on matters relating to the General Agreement on Trade in Services, the Technical Co-operation Policy and Co-ordination Unit on technical assistance matters, and the Trainfortrade Central Team on accountancy development in Africa. It was expected that the Accounting Section would benefit from close contacts with other parts of the organization as well, and that other sections would benefit from the particular expertise that the Accounting Section could bring to bear on a variety of issues.

9. The primary mandate of ISAR was to promote the harmonization of accounting standards for the preparation of comparable and transparent information for all users of the financial statements of enterprises. This took on added importance in the light of the rapid expansion of trade and investment occurring in the world economy. Trade and investment, whether domestic or foreign, depended on reliable, consistent and understandable financial information. Thus, the work of ISAR had particular relevance to the current evolution of the world economy.

10. He noted that, in the last two years, the work of ISAR had been increasingly oriented toward the promotion of technical assistance and cooperation activities. DTCI was also continuing its cooperation activities with other international organizations.

11. The representative of **Sudan** noted that more effort was required to develop the accountancy profession in Africa and expressed the hope that there would be

another conference in Africa on that matter. He also expressed the hope that the resolutions that had been adopted at the Group's previous session would be followed up. He suggested that both last year's Chairman and the current year's Chairman should work toward implementing the resolutions adopted previously, as well as those that would be adopted at this year's session. He requested that last year's Chairman continue to be involved in the work of the Group in the current and future years.

12. The representative of **Mexico** reported that her country, through its public accounting institute, had adopted the International Accounting Standards Committee's international standards, particularly with regard to reflecting the effects of inflation in financial statements of enterprises. Because of the severe inflation in Mexico in the past several years, inflation accounting had been used to allow comparability of financial statements over time. Inflation had now been reduced to about 10 per cent per year.

13. She agreed that accounting standards needed to be unified, but the economic problems experienced by member States were quite diverse and numerous. Thus, while there needed to be uniform standards for the basic issues, country-specific solutions were nevertheless necessary to reflect particular country features.

14. One way of presenting comparable figures for investors, whether they be local or foreign, was to adjust the statements to international standards or to the standards of other countries. But another method was to provide explanatory notes in addition to the basic financial statements.

15. Another problem relating to the inflation in Mexico concerned budgetary questions connected with the calculation of the tax base. Starting in 1987, Mexican laws had provided for the adjustment of the tax base so that it remained realistic rather than historical. The Government was trying to arrive at a structured system which would provide appropriate information to the public and the users of financial statements.

16. Lastly, she said that solving problems was part of a process, and it was necessary to identify problems and tackle them in a uniform way.

17. The representative of the **Russian Federation** described the processes which were taking place in his country and which were also being experienced by many countries. The Russian Federation was now moving from a centralized economic

system towards a market economy in an increasingly intensive manner. This shift had required a restructuring of accounting systems. In 1992, the country had adopted a new plan of accounts which was more adapted to market conditions. The Russian Federation and the other CIS States were receiving assistance from international organizations and in particular from the United Nations in helping to make the transition. In the Russian Federation, there were plans to adopt a new law on accountancy which, with the assistance of the international community, had already been prepared, but because of the political events which had occurred in October 1993, the adoption of this law had been somewhat delayed.

18. The Coordinating Council on Accounting Methodology, which was responsible for coordinating work on accounting issues and problems for all CIS States and which was being sponsored by the United Nations and other international organizations, was a very active body. Four sessions had been held in the last two years, and there were plans to hold a meeting in Minsk in 1994. The work of the Coordinating Council must continue because the countries of the former USSR had very close economic ties. It was clear that those ties would not collapse, and therefore the principle of a unified accounting system for the CIS States was a sound one.

19. With regard to audits in the Russian Federation, President Yeltsin had signed a decree in this respect. The Russian Federation had also received considerable assistance from the international community in developing the auditing profession, and many auditing firms were now operating in the country. It would now be necessary to develop auditing standards and accounting practices, including a code of ethics. It would also be very important to develop a programme to re-train persons in the new principles of accounting based on market economy practices, taking into consideration the conditions that existed in the Russian Federation at the present time.

20. The representative of **Lebanon** commented on the effects that 15 years of war and destruction had had on the economy of his country. Now that peace had been achieved and reconstruction was beginning, great amounts of capital would be needed for development. This in turn meant that an efficient capital market would be necessary for medium and long-term financial instruments to provide the financing of assets and to secure the working capital needed by enterprises. Financial reporting must use sound accounting principles which fairly presented the financial statements of enterprises. An acceptable level of auditing practice was also necessary to permit the sound and proper evaluation of enterprises based on performance, financial standing and profitability.

21. One of the important events which had occurred in 1993 was the convening of a conference in Beirut on international accounting and auditing standards. Several international professional organizations had participated in the conference. Also in 1993 the Higher Board for Accountancy (HBA) had been reactivated as a consultative body to the Ministry of Finance on accounting and tax issues. The Board was fully committed to the promotion of international accounting standards in the country. There was also a new law governing the auditing profession in Lebanon, and when implemented it would bring the profession up to internationally accepted standards of performance.

B. Informal discussions

22. After hearing the general opening statements, the Intergovernmental Working Group pursued its substantive discussions in informal meetings.

[To be completed]

Chapter III

ADOPTION OF THE REPORT OF THE GROUP ON ITS TWELFTH SESSION

[To be completed]

Chapter IV

ORGANIZATION OF THE SESSION

A. Opening and duration of the session

23. The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting held its twelfth session at the Palais des Nations, Geneva, from 7 to .. March 1994. The Group held ... meetings and ... informal meetings.

24. The session was opened by the Chairman of the eleventh session, Mr. T. Abu-Ghazaleh (Jordan).

B. Membership and attendance

25. In accordance with Economic and Social Council resolution 1982/67, the Group is composed of 34 members, elected on the principle of equitable geographical distribution.

26. The following States members of the Group were represented at the twelfth session: Brazil, Bulgaria, China, Cyprus, France, Gabon, Germany, Hungary, India, Italy, Kenya, Lebanon, Mexico, Morocco, Netherlands, Pakistan, Russian Federation, Senegal, Spain, Swaziland, Sweden, Switzerland, Thailand, Tunisia, Turkey, United Kingdom of Great Britain and Northern Ireland.

27. The following States Members of the United Nations were represented by observers: Bangladesh, Bolivia, Canada, Cuba, Democratic People's Republic of Korea, Egypt, Greece, Ireland, Poland, Portugal, Republic of Korea, Slovakia, United Republic of Tanzania, Zambia.

28. The World Bank was represented at the session by an observer.

29. The European Union and the League of Arab States were represented at the session by observers.

30. The following non-governmental organizations in consultative status with the Economic and Social Council were represented by observers:

Category I: International Chamber of Commerce

Roster: Arab Society of Certified Accountants

31. With the approval of the Group, the following organizations attended the session as observers: Federation of European Accountants, International Accounting Standards Committee, International Federation of French-speaking Accountants.

32. The following experts attended the session:

Mr. Talal ABU-GHAZALEH
Mr. Pulsri KANOKVICHITRA
Mr. Antoine N. MATTAR
Mr. Prawit NINSUVANNAKUL
Mr. Ahmed ZEIN ELABDIN

C. Election of officers

33. At the 1st meeting, on 7 March 1994, the Group elected the following officers:

Chairman:	Mr. Abdoul Aziz Dieye (Senegal)
Vice-Chairmen:	Mrs. Maria Celia Monroy (Mexico)
	Mr. Alain Le Bars (France)
	Mr. Ravi Kathpalia (India)
	Mr. Youri Afanassiev (Russian Federation)
	Mr. Zein El Abdin Burai (Sudan)
Rapporteur:	Mr. Nurettin Canikli (Turkey)

D. Agenda and organization of work

34. At its 1st meeting, on 7 March 1994, the Group adopted its provisional agenda (E/C.10/AC.3/1994/1), as orally amended, as follows:

1. Election of officers
2. Adoption of the agenda and other organizational matters
3. Report of important current developments at the global level
4. Report of important current developments at the national level
5. Environmental disclosures: international survey of corporate reporting practices

6. Accounting for new financial instruments
7. Accounting for government grants and concessions
8. Accounting for leases
9. Provisional agenda for the thirteenth session of the Group
10. Other business
11. Adoption of the report of the Group on its twelfth session.

35. Under agenda item 10 (Other business), the following substantive topics were discussed:

(a) Accounting, valuation and privatization;
(b) International qualifications and accreditation of accountants;
(c) General Agreement on Trade in Services (GATS);
(d) Revision of the United Nations publication "Conclusions on Accounting and Reporting by Transnational Corporations";
(e) Resolutions from eleventh session.

E. Documentation

36. The documents before the Group at its twelfth session are listed in the annex to this report.